

MIDVALLEY IMPROVEMENT DISTRICT

FINANCIAL STATEMENTS

For The Year Ended December 31, 2005

Together With Independent Auditor's Report

MIDVALLEY IMPROVEMENT DISTRICT

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Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA**INDEPENDENT AUDITOR'S REPORT**Board of Trustees
Midvalley Improvement District
Midvale, Utah

We have audited the accompanying financial statements of Midvalley Improvement District (the District), as of December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midvalley Improvement District, as of December 31, 2005, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 24, 2006 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 2-6, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Jensen & Keddington, P.C.

May 24, 2006

MIDVALLEY IMPROVEMENT DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS

As management of Midvalley Improvement District (the District), we present to the readers of our financial statements this discussion and analysis of the District's financial performance for the year ended December 31, 2005. This report should be read in conjunction with the District's financial statements and accompanying notes to enhance the reader's understanding of the District's financial activities.

Financial Highlights

- The assets of the District exceeded its liabilities as of the close of the most recent year by \$14,696,322. Of this amount \$9,375,142 (unrestricted net assets) may be used to meet the District's ongoing obligations to the citizens.
- Capital contributions made in the form of sewer lines from developers increased \$86,177.
- Net assets have decreased by \$61,687.

Overview of Financial Report

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of two components: 1) financial statements, and 2) notes to the financial statements.

The District's financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States, promulgated by the Governmental Accounting Standards Board. The District reports as a single enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private businesses, where the intent is that all costs of providing certain goods and services to the general public be financed or recovered primarily through user charges. The accrual method of accounting is used for this fund. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. These statements provide both long-term and short-term information about the District's overall financial status. The financial statements are comprised of three statements and related notes to the financial statements.

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the District's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, all of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

The *statement of cash flows* presents information on the cash receipts, cash payments, and change in cash resulting from operations, investing, and financing activities. This statement answers questions such as where did the cash come from, what was the cash used for, and what was the change in the cash balance during the reporting period.

The *notes to financial statements* provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes are part of the basic financial statements.

MIDVALLEY IMPROVEMENT DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Statement Analysis

To begin our analysis, a summary of the District's balance sheet is presented in the schedule below.

	Net Assets	
	2005	2004
Assets:		
Current and Other Assets	\$ 9,885,721	\$ 9,832,107
Capital Assets	5,321,180	5,383,554
Total Assets	\$ 15,206,901	\$ 15,215,661
Liabilities:		
Current Liabilities	\$ 328,766	\$ 288,079
Other Liabilities	181,813	169,573
Total Liabilities	510,579	457,652
Net Assets:		
Invested in Capital Assets, Net of Related Debt	5,321,180	5,383,554
Unrestricted	9,375,142	9,374,455
Total Net Assets	14,696,322	14,758,009
Total Liabilities and Net Assets	\$ 15,206,901	\$ 15,215,661

The balance sheet includes all of the District's assets, liabilities, and net assets, which are categorized as either invested in capital assets, net of related debt; or unrestricted. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District's, assets exceeded liabilities by \$14,696,322 as of and for the year ended December 31, 2005.

The largest portion of the District's net assets (63.5%) reflects the unrestricted portion of net assets, which may be used to meet the District's obligations to customers, employees, and to honor next year's budget.

The remaining portion of the District's net assets (36.5%) reflects its investment in capital assets (e.g. land, buildings, and sanitary sewer pipe), less any related debt used to acquire those assets that is still outstanding. Resources needed to repay capital-related debt must be provided from other sources. At the close of the current year there was no outstanding debt relating to the acquisition of capital assets.

MIDVALLEY IMPROVEMENT DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Changes in Net Assets

	2005	2004
Revenues		
Sewer service fees	\$ 1,269,208	\$ 1,256,481
Other operating income	45,765	34,456
Interest income	210,811	114,685
Gain on sale of asset	3,671	-
Total Revenues	<u>1,529,455</u>	<u>1,405,622</u>
Expenses		
Disposal plant operations	440,931	551,119
Salaries and benefits	657,651	646,785
Depreciation Expense	205,485	201,252
Administrative costs	191,956	148,355
Non-operating Expense	181,296	235,102
Total Expenses	<u>1,677,319</u>	<u>1,782,613</u>
Loss Before Capital Contributions	(147,864)	(376,991)
Capital Contributions	<u>86,177</u>	<u>159,258</u>
Change in Net Assets	(61,687)	(217,733)
Net Assets - Beginning of Year	<u>14,758,009</u>	<u>14,975,742</u>
Net Assets - End of Year	<u><u>\$ 14,696,322</u></u>	<u><u>\$ 14,758,009</u></u>

Overview of District Revenue

The District has three primary sources of revenue: sewer service fees, other operating income and interest income. Sewer service fees are charges billed to customers for sewer service and represent 83% of operating revenue for the current year. Other operating income represents 3% of revenue for the year and primarily consists of inspection fees which are directly related to growth within the District. Interest income and gain on sale of asset represent the District's portion of non-operating revenues for the current period and represent 14% of Total Revenues.

Overview of District Expenditures

The District has four major costs of operation: disposal plant operations (26.3%), salaries and benefits (39.2%), depreciation (12.3%), and administrative costs (11.4%). The depreciation represents the estimated cost or portion of the existing system used for operations. Non-operating expense represents the District's portion of the current year loss on their equity investment in the South Valley Water Reclamation Facility and accounts for 10.8% of expense for the current period.

MIDVALLEY IMPROVEMENT DISTRICT MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Capital Contributions

Capital Contributions are made in the form of main sewer lines which are dedicated to the District by developers. The District requires the developer to design and install, at the developer's expense, sanitary sewer lines for each new subdivision. The design and installation of the lines are reviewed and approved by the District's Engineer. The lines are subject to the District's specifications and are inspected by the District's Engineer during construction. The District requires testing and approval before the lines are accepted into the system.

Overview of Capital Expenditures

The primary area associated with capital expenditures within the District is with the expansion and upgrade of the South Valley Water Reclamation Facility.

Investment South Valley Water Reclamation Facility

The South Valley Water Reclamation Facility (Facility) was organized on June 23, 1978, pursuant to the interlocal Agreement of the State of Utah by two cities and three other governmental entities. The purpose of the Facility was to construct and operate regional sewage treatment facilities for the benefit of the five members. In August 2003, the Facility became a legal entity as a special district under State Law, rather than a joint administrative entity. The Facility is located at 7495 South 1300 West, West Jordan, Utah. The Facility is administered by a board of trustees with representatives from the five entities. Each member entity appoints one member to the board, and voting power is not related to the percentage of ownership. Therefore, each member is equal to another for voting privileges. The board is responsible for adopting a budget and provides the financing for Facility operations.

The following is a recap of the related ownership interests and the equivalent capacity of ownership in the treatment plant as of 2005.

	<u>Percent</u>	<u>MGD</u>
South Valley Sewer District	34.72%	13.20
West Jordan City Corporation	28.22%	10.72
Sandy Suburban Improvement District	20.17%	7.66
Midvalley Improvement District	10.11%	3.84
Midvale City Corporation	6.78%	2.58
	<u>100.00%</u>	<u>38.0</u>

South Valley Water Reclamation Facility – Phase 4 Expansion Project

The current phase of the Reclamation Facility plant expansion will increase its capacity to 50 MGD (million gallons per day) at an estimated cost of \$21.3 million. The Reclamation Facility expansion commenced construction in 2000 and is scheduled for completion by 2009. The District is not purchasing any of the expansion capacity. Concurrent with the expansion, there are upgrades planned for the treatment facility which are estimated to cost approximately \$43.3 million (the "Reclamation Facility Project"), of which the District's share is estimated at \$2.6 million. It is anticipated that the District will finance its portion through cash reserves.

Other Comments

In March 2005, the District adopted a resolution changing the name of the district from Salt Lake City Suburban Sanitary District No. 2 to the Midvalley Improvement District.

**MIDVALLEY IMPROVEMENT DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

Requests For Information

This financial report is designed to provide a general overview of Midvalley Improvement District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Midvalley Improvement District, General Manager, 160 East 7800 South, Midvale, Utah 84047.

BASIC FINANCIAL STATEMENTS

MIDVALLEY IMPROVEMENT DISTRICT
STATEMENT OF NET ASSETS
December 31, 2005

Assets

Current Assets

Cash and cash equivalents	\$ 6,385,302
Accounts receivable	68,364
Prepays	44,276
Other current assets	943

Total Current Assets	<u>6,498,885</u>
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Capital Assets

Land	198,764
Other Capital Assets, net	<u>5,122,416</u>

Total Capital Assets	<u>5,321,180</u>
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Other Assets

Restricted cash - developer deposits	38,961
Investment in South Valley Water Reclamation Facility (SVWRF)	<u>3,347,875</u>

Total Other Asset	<u>3,386,836</u>
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Total Assets	<u><u>\$ 15,206,901</u></u>
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Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 55,061
Amount due to SVWRF	112,760
Accrued compensated absences	49,599
Refundable deposits - payable from restricted cash	39,623
Deferred revenue	71,723

Total Current Liabilities	<u>328,766</u>
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Long-Term Liability

Accrued compensated absences	<u>181,813</u>
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Total Long-Term Liability	<u>181,813</u>
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Total Liabilities	<u>510,579</u>
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Net Assets

Invested in capital assets, net of related debt	5,321,180
Unrestricted	<u>9,375,142</u>

Total Net Assets	<u>14,696,322</u>
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Total Liabilities and Net Assets	<u><u>\$ 15,206,901</u></u>
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The accompanying notes are an integral part of these financial statements.

MIDVALLEY IMPROVEMENT DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended December 31, 2005

Operating Revenues	
Sewer service fees	\$ 1,269,208
Other operating income	<u>45,765</u>
Total Operating Revenues	<u>1,314,973</u>
Operating Expenses	
Disposal plant operations	440,931
Salaries and wages	457,739
Payroll taxes	35,080
Employee benefits	164,832
Depreciation	205,485
Engineering fees	14,997
Office supplies and expense	61,607
Insurance	48,592
Legal and accounting	16,439
Maintenance of sewer lines	647
Auto and truck expense	22,697
Repairs and maintenance	6,859
Miscellaneous	19,948
Bank agent service fees	<u>170</u>
Total Operating Expenses	<u>1,496,023</u>
Loss From Operations	<u>(181,050)</u>
Nonoperating Revenue (Expenses)	
Interest income	210,811
Loss from equity investment in joint venture	(181,296)
Gain on sale of asset	<u>3,671</u>
Total Non-Operating Gain	<u>33,186</u>
Net Income (Loss) Before Contributed Capital	<u>(147,864)</u>
Contributed Capital - Lines	<u>86,177</u>
Change In Net Assets	(61,687)
Total Net Assets, Beginning of Year	14,758,009
Total Net Assets, End of Year	<u><u>\$ 14,696,322</u></u>

The accompanying notes are an integral part of these financial statements.

MIDVALLEY IMPROVEMENT DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2005

Cash Flows from Operating Activities	
Cash received from customers and users	\$ 1,309,208
Payments to suppliers	(666,616)
Payments to employees	(645,350)
Net Cash From Operating Activities	<u>(2,758)</u>
Cash Flows From Investing Activities	
Interest income	210,811
Contributions to SVWRF	(114,782)
Net Cash From Investing Activities	<u>96,029</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of property and equipment	(60,762)
Proceeds from sale of property and equipment	7,500
Cash bonds from developers	30,079
Restricted cash - net (increase) decrease	(13,699)
Net Cash From Capital and Related Financing Activities	<u>(36,882)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	56,389
Cash and Cash Equivalents, Beginning of Year	<u>6,328,913</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 6,385,302</u></u>
Reconciliation of Operating Income to Net Cash from Operating Activities	
(Loss) from operations	\$ (181,050)
Adjustments to reconcile loss from operations to net cash from operating activities	
Depreciation expense	205,485
(Increase) decrease in current assets	
Accounts receivable	(5,765)
Prepaid Expenses	(44,276)
Increase (decrease) in current liabilities	
Accounts payable	10,547
Accrued liabilities	12,301
Net Cash From Operating Activities	<u><u>\$ (2,758)</u></u>

The accompanying notes are an integral part of these financial statements.

MIDVALLEY IMPROVEMENT DISTRICT
STATEMENT OF CASH FLOWS (Continued)
December 31, 2005

Supplemental Information

Noncash Investing, Capital, and Financing Activities

During 2005, the District received as contributed sewer line capital of \$86,177.

The District recognized a net loss of equity in the SVWRF of \$181,296.

The accompanying notes are an integral part of these financial statements.

MIDVALLEY IMPROVEMENT DISTRICT NOTES TO FINANCIAL STATEMENTS

NOTE 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Midvalley Improvement District (the District), is a special taxing district operating in a certain geographical area of Salt Lake County, Utah. The District was organized in 1954 for the purpose of constructing and maintaining the area's sewer system. On March 9, 2005, the District adopted a resolution changing the name of the district from Salt Lake City Suburban Sanitary District No. 2 to the Midvalley Improvement District.

The District is a separate legal entity with three members on the Board of Trustees. The District is not included in any other governmental "reporting agency" as defined by The Governmental Accounting Standards Board (GASB), GASB Statement 14 pronouncement, since the Board of Trustees is elected by the public and has decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units as defined by GASB Statement 14 which are included in the District's reporting entity.

Summary of Significant Accounting Policies:

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to government entities. The District has elected, under GASB Statement 20, to follow the pronouncements issued by the Financial Accounting Standards Board, unless those pronouncements conflict with or contradict GASB pronouncements.

Effective January 1, 2004, the District adopted GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments", Statement No. 37, "Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus", and Statement No. 38, "Certain Financial Statement Note Disclosures." The primary impact of adopting the Statements included changing the presentation of fund equity to net assets, changing the presentation of the cash flow statement from the indirect method to the direct method, and the presentation of "Management's Discussion and Analysis." The District has also adopted GASB Statement No. 33, "Accounting and Financial Reporting for Non-Exchange Transactions." Implementation of the Statement resulted in a change in presentation of capital contributions on the statement of activities. The following is a summary of the more significant policies.

Financial Statement Presentation and Basis of Accounting

The District prepares its financial statements on an enterprise fund basis. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private businesses, where the intent is that all costs of providing certain goods and services to the general public be financed or recovered primarily through user charges, or where it has been deemed that periodic determination of net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Accordingly, the District's financial statements are presented on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned and expenses are recorded when liabilities are incurred.

Cash and Cash Equivalents

For the purposes of these financial statements, cash and cash equivalents are defined as cash on hand, demand deposits, and funds invested in the State Treasurer's Investment Pool which are available for immediate withdrawal.

MIDVALLEY IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Summary of Significant Accounting Policies (Continued):

Allowance for Doubtful Accounts

The District has not set up an allowance for doubtful accounts for receivable of sewer service fees. Unpaid fees are certified to the County and attached as liens on the related real estate.

Property, Equipment and Sewer Systems

The District records property and equipment additions at cost when purchased or constructed. Normal maintenance and repairs, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Sewer lines constructed by developers and conveyed to the District are recorded at estimated fair market value provided by construction engineers. The lines are recorded as contributed capital when completed and accepted by the District.

Depreciation is computed using the straight-line method over estimated useful lives of the assets as follows:

<u>Types of Property and Equipment</u>	<u>Estimated Useful Lives</u>
Buildings	10-40 years
Sewer systems	50 years
Equipment and vehicles	7-10 years

Investment in Joint Venture

The District accounts for its investment in the South Valley Water Reclamation Facility (SVWRF) using the equity method of accounting.

Vacation and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Vacation hours accrued during the preceding calendar year may be carried forward one calendar year.

Post-Retirement Benefits

The District offers post-retirement health insurance benefits to employees based on their length of employment. Expenditures for post-retirement health care benefits are recognized on a monthly basis as the premiums are paid. For the year ended December 31, 2005, no costs associated with post-retirement benefits were incurred.

Deferred Revenue

Deferred revenue represents sewer fees billed to customers in advance, for which payment has been received but not earned.

Budgets

The budget is adopted by resolution of the Board of Trustees and filed with the State Auditor annually. All annual appropriations are maintained on an accrual basis and lapse at fiscal year end.

MIDVALLEY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summary of Significant Accounting Policies (Continued):

Management Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at December 31, 2005 and the revenues and expenses during the reporting year then ended. Actual results could differ from those estimates made in the preparation of the financial statements.

NOTE 2 CASH AND CASH EQUIVALENTS

The District's deposit and investment policy is to follow the Utah Money Management Act. However, the District does not have a separate deposit or investment policy that addresses specific types of deposit and investment risks to which the District is exposed.

The District follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Section 51, Chapter 7) in handling its depository and investment transactions. This law requires the depositing of District funds in a "qualified depository". The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal government and which has been certified by the state commissioner of financial institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also governs the scope of securities allowed as appropriate investments for the District and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers.

As of December 31, 2005, the District had the following deposits and investments:

	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Credit Rating (1)</u>
Cash on deposit	\$ 78,055	\$ 82,441	N/A	N/A
Utah Public Treasurer's Investment Fund	<u>6,346,208</u>	<u>6,343,441</u>	N/A	N/A
Total cash and investments	<u><u>\$ 6,424,263</u></u>	<u><u>\$ 6,425,882</u></u>		

(1) Ratings are provided where applicable to indicated associated Credit Risk.

N/A indicates not applicable

The District's cash and cash equivalents and investments are exposed to certain risks as outlined below:

Interest rate risk is the risk that changes in the interest rates will adversely affect the fair value of an investment. The District manages its exposure by investing only in the Utah Public Treasurers Investment Fund.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District only invests in the Utah Public Treasurer's Investment Fund. As of December 31, 2005, the Utah Public Treasurer's Investment Fund was unrated.

MIDVALLEY IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 CASH AND CASH EQUIVALENTS (Continued)

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's investment in the Utah Public Treasurer's Investment Fund has no concentration of credit risk.

Custodial credit risk – deposits is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has funds deposited in a bank which are covered up to \$100,000 by federal depository insurance. As of December 31, 2005 the District's bank balance of \$82,441 was not exposed to custodial risk because it was within the limits of coverage by the federal depository insurance.

Custodial credit risk – investments is the risk that in the event of the failure of a counterparty, the District will not be able to recover the value of its investments that are in the possession of an outside party. The District's investment in the Utah Public Treasurer's Investment Fund has no custodial credit risk.

The following is a summary of the District's cash and investments as of December 31, 2005:

	Carrying Amount
Utah Public Treasurer's Investment Fund	\$ 6,346,208
Cash on deposit	78,055
Total Cash and Investments	<u>\$ 6,424,263</u>
As reported on the Statement of Net Assets:	
Cash and cash equivalents	\$ 6,385,302
Restricted cash:	
Cash bonds	<u>38,961</u>
	<u>\$ 6,424,263</u>

MIDVALLEY IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 CAPITAL ASSETS

At December 31, 2005, property, equipment, sewer systems and the related accumulated depreciation are summarized as follows:

	2004	Additions	Deletions	2005
Capital Assets not being depreciated				
Land	\$ 198,764	\$ -	\$ -	\$ 198,764
Total Capital Assets not Being Depreciated	<u>\$ 198,764</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 198,764</u>
Other Capital Assets				
Buildings and improvements	\$ 1,011,003	\$ 40,044	\$ -	\$ 1,051,047
Sewer systems	7,123,536	86,177	-	7,209,713
Equipment and vehicles	866,187	20,719	(20,100)	866,806
Total Other Capital Assets	9,000,726	146,940	(20,100)	9,127,566
Less: Accumulated Depreciation				
Buildings and improvements	(351,141)	(26,861)	-	(378,002)
Sewer systems	(2,765,970)	(142,960)	-	(2,908,930)
Equipment and vehicles	(698,825)	(35,664)	16,271	(718,218)
Total Accumulated Depreciation	<u>(3,815,936)</u>	<u>(205,485)</u>	<u>16,271</u>	<u>(4,005,150)</u>
Other Capital Assets, net	<u>\$ 5,184,790</u>	<u>\$ (58,545)</u>	<u>\$ (3,829)</u>	<u>\$ 5,122,416</u>

Depreciation expense of \$205,485 was charged to operating expense for the year ended December 31, 2005.

NOTE 4 ACCOUNTS RECEIVABLE AND DEFERRED REVENUE

Accounts Receivable

At December 31, 2005, the District has recorded \$55,072 of accounts receivable from customers for sewer service fees. Accounts receivable for sewer fees do not have an allowance for doubtful accounts since the District annually places liens on outstanding accounts with the County Treasurer on August 31.

Consequently, the District has full recourse on materially all their accounts receivable. As of December 31, 2005 the District had \$13,292 of liens included in the receivable balances.

Deferred Revenue

During the fiscal year 2005, the District pre-billed customers for sewer charges. The District has recorded \$71,723 of deferred revenue at December 31, 2005, which represents the unearned portion of the sewer fees billed and collected.

MIDVALLEY IMPROVEMENT DISTRICT **NOTES TO FINANCIAL STATEMENTS (Continued)**

NOTE 5 INVESTMENT IN SOUTH VALLEY WATER RECLAMATION FACILITY

During 1978, the District entered into a joint venture with two other special districts and two other cities to form the South Valley Water Reclamation Facility (SVWRF). The joint venture was organized to construct and operate a regional sewage treatment facility for the benefit of the five members.

The five members and their related ownership interests are listed below and are based on the members' ownership of SVWRF's current MGD capacity, and not the ownership of future capacity that is currently under construction.

	<u>Percent</u>	<u>MGD</u>
South Valley Sewer District	34.72%	13.20
West Jordan City Corporation	28.22%	10.72
Sandy Suburban Improvement District	20.17%	7.66
Midvalley Improvement District	10.11%	3.84
Midvale City Corporation	6.78%	2.58
	<u>100.00%</u>	<u>38.0</u>

The joint venture is administered by a board of trustees. Each member appoints one member to the board, and voting power is not related to ownership. Therefore, each member is equal to another for voting privileges. The joint venture is responsible for adopting a budget and financing its operations, subject to the approval by each of the five members. Each member is billed its share of operating costs based on the member's metered usage. The District's paid operating costs of \$440,931, and capital contributions of \$114,782 to the joint venture for the year ended December 31, 2005. As of December 31, 2005, the District had payables of \$112,759 to the joint venture.

The following are condensed summaries of the joint venture's audited balance sheets at December 31, 2005 and statements of operations for the years then ended. The amounts at December 31, 2005 were provided from separate audited financial statements, which are available at the office of South Valley Water Reclamation Facility, 7495 South 1300 West, West Jordan, Utah 84084.

	<u>2005</u>	<u>2004</u>
Assets		
Current assets	\$ 23,129,680	\$ 4,192,205
Property, plant and equipment, net	47,696,381	47,056,803
Total Assets	<u>\$ 70,826,061</u>	<u>\$ 51,249,008</u>
Liabilities and Fund Equity		
Current liabilities	\$ 1,587,795	\$ 994,809
Long-term liabilities	20,098,900	-
Net assets	49,139,366	50,254,199
Total Liabilities and Fund Equity	<u>\$ 70,826,061</u>	<u>\$ 51,249,008</u>

MIDVALLEY IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 INVESTMENT IN SOUTH VALLEY WATER RECLAMATION FACILITY (Continued)

	<u>2005</u>	<u>2004</u>
Operating revenues	\$ 7,477,888	\$ 7,142,922
Operating expenses	<u>(7,221,583)</u>	<u>(7,176,564)</u>
Operating income	256,305	(33,642)
Depreciation	(3,018,257)	(3,183,171)
Other income/expense	<u>44,421</u>	<u>33,642</u>
Net loss from operations	<u><u>\$ (2,717,531)</u></u>	<u><u>\$ (3,183,171)</u></u>

The amount of the investment in SVWRF is carried at an amount that is less than the District's ownership percentage of the underlying equity in net assets as shown in SVWRF's December 31, 2005 audit report. The difference is due to SVWRF basing the members' ownership on current MGD, and not the ownership of future capacity that is currently under construction. SVWRF is currently constructing additional capacity, called Phase IV, by adding an additional 12 MGD, for a total of 50 MGD, of which the District is not purchasing any of the additional capacity. When SVWRF has completed Phase IV, the District will have an ownership interest in SVWRF of 7.68%.

NOTE 6 RETIREMENT PLAN

Plan Description

The District participates in the Utah State Retirement Systems which are multiple employer, cost sharing retirement systems providing defined benefits based on years of service and highest average salaries. The Utah Public Employees Retirement System (the System) covers substantially all eligible employees of the State of Utah and participating local governments. The System is a defined benefit retirement plan designed to fund current pension costs as they accrue and to cover any past service costs over a 40-year period.

The System has been established and is governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The System issues a publicly available financial report that includes financial statements and required supplementary information. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

The District is legally obligated to contribute to the retirement systems as long as they have employees meeting membership requirements.

The District contributed 11.09% for the period beginning January 2005 through June 2005, and 11.09% for the period beginning July 2005 through December 2005 of each participating employee's salary to the Public Employees Retirement System. The contribution rates are actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The District's contributions to the Local Government Noncontributory Retirement System for 2005, 2004, and 2003, were \$50,373, \$45,320, and \$39,018, respectively. The contributions were equal to the required contributions for each year.

MIDVALLEY IMPROVEMENT DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 RETIREMENT PLAN (Continued)

The District's contributions to the 401K Plan (Contributory) for 2005, 2004, and 2003 were \$26,663, \$25,673, and \$25,008, respectively and, the employee contributions for 2005, 2004, and 2003 were \$14,075, \$15,000, and \$12,800, respectively.

Full-time employees and part-time employees working an average of 20 hours or more each week and who receive benefits normally provided by the District participate in the System immediately. The District follows the rules established by the Utah State Retirement Systems for eligibility, vesting and benefit provisions.

NOTE 7 FUTURE CONSTRUCTION

The District is obligated to contribute to the replacement and upgrade associated with the expansion of the South Valley Water Reclamation Facility during the next three years (2006 through 2009). Planned expenditures for this purpose are projected by management at approximately \$2,600,000. The District has designated \$2,600,000 of unrestricted net assets for the planned expansion.

NOTE 8 RECLASSIFICATION

Certain amounts in 2004 have been reclassified to conform to the 2005 presentation.



Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA

**REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT
OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Midvalley Improvement District
Midvale, Utah

We have audited the financial statements of Midvalley Improvement District, as of and for the year ended December 31, 2005, and have issued our report thereon dated May 24, 2006. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Midvalley Improvement District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Midvalley Improvement District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Midvalley Improvement District's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

The District has a lack of proper segregation of duties in the accounting area. This is inherent due to the size of the District Office. For details of this reportable condition, refer to the *Schedule of Findings and Recommendations* section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of management and the Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

Jansen & Keddington, P.C.

May 24, 2006



Jensen & Keddington, P.C.

Certified Public Accountants

Jeffrey B. Jensen, CPA
Gary K. Keddington, CPA
Brent E. Christensen, CPA
Jeffrey B. Hill, CPA

**INDEPENDENT AUDITOR'S REPORT
ON STATE OF UTAH
LEGAL COMPLIANCE**

Board of Trustees
Midvalley Improvement District
Midvale, Utah

We have audited the financial statements of Midvalley Improvement District, for the year ended December 31, 2005 and have issued our report thereon dated May 24, 2006. Our audit also included testwork on the District's compliance with those general compliance requirements identified in the *State of Utah Legal Compliance Audit Guide*, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special District
- Other General Compliance Issues
- Impact Fees and Other Development Fees

The District did not receive any major or nonmajor grants during the year ended December 31, 2005.

The management of Midvalley Improvement District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, Midvalley Improvement District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

Jensen & Keddington, P.C.

May 24, 2006

**MIDVALLEY IMPROVEMENT DISTRICT
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
For The Year Ended December 31, 2005**

FINANCIAL STATEMENT AUDIT FINDINGS

1. SEGREGATION OF DUTIES (Reportable Condition)

Finding

There is a lack of segregation of duties in the District's accounting system. Certain individuals have access to both physical assets and the related accounting records, reconcile accounts, prepare reports, and have access to all phases of transactions. This finding is inherent due to the size of the District's office staff. A similar finding was noted in the prior year.

Recommendation

The District should constantly monitor and update internal controls as required. It was noted that all checks require two signatures and that the Board of Trustees reviews expenses during their monthly meeting. We recommend that the District continue to use the internal control policies established.

STATE OF UTAH LEGAL COMPLIANCE FINDINGS

None

Midvalley Improvement District

formerly known as SLC Suburban Sanitary District # 2

June 27, 2006

Jensen & Keddington
5292 South College Drive
Suite 101
Murray, UT 84123

To Whom It May Concern:

The results of your audit procedures disclosed the following immaterial instance of non-compliance with the Government Standards.

Finding 1

There is a lack of segregation of duties in the District's accounting system. Certain individuals have access to both physical assets and the related accounting records, reconcile accounts, prepare reports and have access to all phases of transactions. This is inherent due to the size of the District office.

Your Recommendation

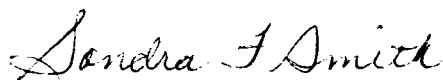
We have observed that the District has good internal control policies in place that minimize the segregation of duties problem. We recommend that the District continue to use the internal control policies established.

Response

Because of the size of the office, this finding is always shown on the District's report. Internal Control Policies were studied carefully before they became office policies and procedures. The office staff complies with the recommended policies.

Cordially,

MIDVALLEY IMPROVEMENT DISTRICT



Sondra F. Smith